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MEMORANDUM

TO: FILE

FROM: TOM OVERTURF


DATE: 10/23/97

SUBJECT: Torrance/ Capitol Metals...discussions and negotiations

1. Fremont/ Steve Hoy Sr. Confirmed bankruptcy rumor by Capitol and will check his source, a supplier to Capitol who's owed money). Steve urged us to cut a deal on rail removal...its worth a lot. He liked the idea of extending the Fire Lane to include Capitol.. gives us some options. Cost of the construction per Oltman's bid of \$299,000 for 1978 l.f . Equates to \$150/ft. Capitol's 550' would be about \$82,000 for the fire lane, fence, and landscape plus the rail removal and paving in the loading area.... perhaps another \$30,000for a total \$112,000 plus contingency of \$28,000 = \$150,000. The other landscaping and screening we'd be doing in any case.
2. Dan's in bed with serious back and hip problems... but we got the message to him on the importance of a cash offer and a clean quit claim with Title policy involving all the legal interests. He seemed to accept that but reiterated the additional hauling costs etc. but he dropped back from his initial \$8-9 M to a \$3 M " tester " so it appears he may be more realistic. Told him he'd need to address the bankruptcy issue, the ownership issue, the timing issue on his sale/lease of the business and hopefully be ready to present a fair and reasonable,best and final offer.
3. Conf. Call with Dan Eget / Cyburt, Stavale, Overturf @ 1:30 Thursday 10/23/97 to review and update each parties situation since the last meeting @ Capitol on 8/12/97 and our Conf. Call on 8/13/97(attached copies of memos w/ \$1.87 M Board Support Value vs. \$1.3 M net cash value proposed to Dan)
4. We reviewed current status, Fremont's start of construction and rail removal, and our need to either order the rail crossing equipment or make a deal with Capitol. Dan's response was similar in that he's in a similar final decision mode with his buyer. If he doesn't get it done now he'll lose control and the rail will be a part of the grandfathered operation forever...in fact it will likely be expanded because its not economical to operate the business at the current level of service.
5. Bankruptcy-his Buyer had \$12 M line of credit but to facilitate expansion now needs \$20 M so Capitol has agreed to file to encourage lender to increase line for Buyer. Since Dan has control of both the business and the real estate (and can withdraw the filing?) he is confident that he can provide clear title to the Quit Claim for all rail and utility easements on BRC property to meet our requirements. Landowner is DANAT Investments.. will lease to business buyer.
6. Dan reviewed the \$8-9 M potential long-term increase in cost to lose rail but cut to the chase with a proposal to sell for \$2 M plus the rail removal, repairs, screening, landscaping, and pavement work on the east, south, and southwest sides of Capitol Metals (which we estimate @ \$150,000 in item 1 above).

7. Our response was \$1.7 M maximum Board authorization payable later in '98 to minimize balance sheet impact of retail sale loss and other demo, remediation, and development costs, which he understood and seemed willing to work with personally but felt his partner(s) would definitely require something down as they had assumed a full cash payment up-front. The figure of 10% interest was proposed, with Dan agreeing to review this with his side and respond by Friday 10/24/97.
- 8.

PHONE MEMORANDUM

TO: FILE
FROM: TOM OVERTURF 
DATE: AUGUST 13, 1997
SUBJECT: TORRANCE/CAPITOL METALS

Attending: Phil Cyburt and Tom Overturf

1. Jim Biondi:
 - A. Value of building to the right user with 30' height, cranes, etc. assuming monthly rent at .28-.30¢/S.F. range and 10% cap rate (less 7% overall).
 - B. With rent of .30¢, investment = \$32.35/S.F. or \$6.86M.
 - C. General value range is probably from \$25-\$35/S.F. or \$5.3M - \$6.3M or perhaps \$5.8M conservative value.
2. Rail easement detrimental loss (or value to eliminate rail) "Just not seeing it much over one million dollars". Potentially a Limited Life of the business since manufacturers are doing more processing themselves. Trucking could be as detrimental to the park as rail, especially considering that there could be 5-6 times more trucks than rail cars or 300 per month just for steel transfer plus whatever other trucking operations could be housed in Bldg. 66.
3. Bill Peters - It's just an industrial park - rail will not be that big a problem - just have to sell bigger lots where rail crosses. It's hard to put a value on easement, but perhaps a \$500,000 opener?
4. Dan Eget (We called Dan late Wednesday afternoon):
 - A. Phil - we met with the Investment Committee and pretty well got hammered this morning. Also, have reviewed values with our two brokerage teams.
 - B. We just can't justify anything close to the \$1M plus a \$500,000 Tenant Improvement Allowance that you offered yesterday.
 - C. We did get approval to reduce the value from \$5.5M to \$4.5M to try to make a deal, but basically we're still at the value we discussed yesterday:

\$2.6M for Building plus \$500,000 for Tenant Improvement or \$3.1M.
5. We would need at least 20% down or \$620,000 to book a sale.
6. Dan wanted the \$500,000 Tenant Improvement to go into his pocket or apply to the down payment, but Phil reiterated that it would have to be tied to rail, paving, landscape, or similar interior or exterior improvements, which would have to be actually completed to "draw-down" this \$500,000.
7. Dan asked about the direct purchase value of the Easement Removal which Phil had calculated at \$1,870,000 on Tuesday, but which included a "nuisance value of \$500,000". Based upon current evaluations by committee and brokers the net cash value to MDRC today would be \$1,300,000.
8. Both agreed that we were still conceptually far apart and both needed to proceed assuming the rail easement would remain.

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MEETING MEMORANDUM

TO: FILE
FROM: TOM OVERTURF
DATE: AUGUST 12, 1997
SUBJECT: TORRANCE/CAPITOL METALS

Attending: Dan Eget, Phil Cyburt and Tom Overturf

1. Toured Dan's operations, rail trackage and perimeter.
2. His other operations (neither have pickling/oiling operation):
 - A. Antioch 140,000 S.F. slitting and leveling.
 - B. Livermore (34 acres) being redeveloped as industrial park.
3. Rail operation - currently has 14 rail cars - 5 on site; 2 on our curve; 7 on Normandie side of track.
4. Confidentiality is critical.
5. New operator will bring in 50-60 cars per month (which is double the current rate) at 100 tons per car = 6,000 tons (much of it from Mexico), unload, storage and delivery from Fontana \$90,000 to \$120,000 per month (over 10 years present value = \$8-\$9M).
6. Trucking Company: trucking with sub-haulers - he owns no trucks - they are independent contractors. He would offer Buyer a concession to haul steel for certain period.
7. Building 66 value based on Dan's recent appraisal with land at \$8.00/S.F. and Building at \$5-\$10/S.F. (assuming Building 66 at \$8/S.F. also):
 - A. $\$8 \times 350,000 = \$2,800,000$
 - B. $\$8 \times 212,000 = \$1,700,000$

\$4,500,000 or \$21.22/S.F. Bldg.

(Note that MDRC feels its value of Building 66 is closer to \$5.5M.)

8. MDRC's maximum figures for Board support:

| | |
|--|-------------------|
| A. Rail Crossing Construction | \$ 500,000 |
| B. Long Term Maintenance, Legal, Insurance | \$ 200,000 |
| C. Direct Coverage by Easement 74,000 S.F. at \$5/S.F. = | \$ 370,000 |
| D. Adjacent to Easement 100,000 S.F. at \$3/S.F. = | \$ 300,000 |
| E. <u>Nuisance Value</u> | <u>\$ 500,000</u> |
| MDRC's Max Total Value of Easement | \$1,870,000 |

9. Net Price of Building 66: \$4,500,000 less \$1,870,000 = \$2,630,000 "boot" to MDRC (if MDRC accepts \$1M less on Building 66).
10. Dan's perspective on Land 350,000 S.F. at \$8 = \$2.8M - Less demo (\$400,000) and less remediation (\$700,000) less fill and miscellaneous (\$200,000) = \$1.5M, but then he'll have at least \$500,000 tenant improvement (cranes, racking systems, handling equipment, etc.).
11. Dan's offer to buy Building 66 (with conditions generally as proposed by MDRC) **\$1,500,000 Purchase Price** (with an agreeable down payment and financing terms by MDRC). MDRC also to provide a **Tenant Improvement Allowance of \$500,000** over and above the following improvements by MDRC:
 - Perimeter screening as required by MDRC
 - Rail removable and pavement repair on back (east side) of his existing building.

August 13 Special Real Estate Investment Committee Meeting:

(Tom Motherway, Steve Vogeding, Mario Stavale, Phil Cyburt and Tom Overturf)

1. Agreed to reduce our value of Building 66 to \$4.5M.
2. Reviewed closure of "gap" from in excess of \$4.5M to the difference between \$2.63M (above) and Dan's \$1M offer of (\$1.5M less \$0.5M T.I. Allowance) = \$1.63M current gap.
3. Authorized presentation to Dan as noted in item 11 above, but at \$2.63M Purchase Price.

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